THE ROYAL BANK
OF CANADA

AR40

PROCEEDINGS
OF THE 117TH
ANNUAL MEETING
OF SHAREHOLDERS

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TOWARDS A FINANCIAL SYSTEM FOR THE YEAR 2000: A CONFIDENT DEPARTURE

An address by

Rowland C. Frazee
Chairman and
Chief Executive Officer

This is the last Annual Meeting at which I will have the privilege of delivering the Chairman's Remarks to the Shareholders. During my term of office, the focus of these remarks has varied widely, from broad public policy issues to the operating strategies of the Royal. This morning, I plan to cover both.

We have just completed a year of momentous and frequently confusing developments in the Canadian financial system. At times, that confusion raised the issue of confidence in our institutions and in the safety of Canadian savings. Nothing is potentially more harmful to a banking system as a whole than doubts of that nature.

We are at a crucial point of departure toward the Canadian financial system of the year 2000. I want to share with you my views of what some of these recent developments really mean, for the Royal and for the system as a whole. I also want to look ahead, to how I believe the Bank and the system should evolve in coming years; and to summarize for you the principles that should guide the process.

Many of you will be aware that over the past year management officers spent an extraordinary amount of time responding to events in Ottawa and elsewhere. Briefs to Parliamentary Committees, submissions to and meetings with Cabinet Ministers, meetings of the chief executives of the major banks – all occurred with unprecedented frequency. No one could have missed the Canadian Commercial and the Northland Bank controversies, and if you've been reading the newspapers closely, you also know about the Green Paper, its Technical Supplement and the Wyman Report. You have followed the Dupré Task Force reports, the Estey Commission, Bills C-79 and C-86, the Baker Initiative, and on and on. The blizzard of events and paper has been enough to daze a computer, let alone ordinary bankers.

Fundamental Forces

But in fact, there is a common thread running through all these developments. Each is a symptom of the rapid evolution of our financial system. Each results from fundamental forces, inside and outside Canada, some stretching back more than a decade. A perspective on what is going on today, and what will go on tomorrow, starts with those forces. I can think of at least five of them.

I have to begin with the far-reaching impact on the financial system of the earlier loss of control over inflation, and then of the deep recession from which we have now fortunately emerged. Inflation destroys the real value of savings. It undermines confidence in the financial system that holds those savings in trust. It destabilizes financial markets. It impedes the very functioning of the economy. Inflation, and in particular inflation combined with the recession, created very serious strains on Canada's financial system. The scars are still with us. Given the shortness of human memory, there is always the danger that we will forget some of the bitter lessons learned from those experiences. But forgotten or not, inflation and economic instability together form the first fundamental force behind the disruptions and changes we have seen.

The second force arises from advances in new technology. We can do old things in new ways, and do new things that were undreamed of just a decade ago. Companies that can not or will not adjust face difficulties as change swirls around and over them at an unprecedented pace. This represents a quantum shift in our environment. So, technology is transforming the previously well-defined roles of different players within the financial system, and that is a second force we have to deal with.

Third, over the last decade in Canada we have seen the rapid emergence of new financial institutions. I refer to the small chartered banks, the so-called regionals, founded for the most part in the relatively halcyon days of the mid-to-late seventies. I include the arrival, since the Bank Act changes of 1980, of nearly sixty new banks, for the most part Canadian subsidiaries of the largest and strongest financial institutions in the world. And I certainly point to the emergence of the financial conglomerates, a type of structure that was totally unforeseen by existing legislation.

Those institutions are of a size that in some instances now rivals or exceeds that of the large chartered banks. Regionals, Schedule Bs, conglomerates – those new players make up the third force that has changed the Canadian financial landscape significantly.

Fourth is the continuing and increasing internationalization of domestic financial markets. These markets are no longer separate islands of activity. They are interlinked and interdependent, serving customers co-operatively and simultaneously. Whether we consider business strategies, or the authorities consider regulatory restructuring, we all must recognize as a fact of life that political boundaries have ceased being barriers and have become bridges. This open trade in financial services requires us to be competitive, not just by domestic but also by international standards. It is a beneficial force.

For Canadian corporations, it means improved services, increased competitive strength, and better growth; for individuals, it translates also into more and better jobs. Clearly, the globalization of financial markets has become a fundamental force, the fourth on my list.

Fifth, in the international arena, we still have the unfolding process of finding a resolution, on a case-by-case basis, of the sovereign debt problems. The financial systems of many countries are affected by this challenge. The picture is clearer, and to some extent brighter, than was the case even eighteen months ago. We must recognize that this is not a simple case of overly large loans to national governments. The roots of the difficulty lie in the oil price shocks, beginning in 1973; the accumulation of huge amounts of capital by the oil exporting nations; the need to recycle those savings; and the international banking community being left to deal with that problem.

While Allan Taylor will expand on the sovereign debt situation, and the Royal Bank's own position, I want simply to underline that progress is being made. In particular, I see promise in the Baker Initiative, the general proposals made last fall at the IMF/World Bank Annual Meeting by the Secretary of the United States Treasury.

The fifth force, then, is the sovereign debt challenge and its underlying problem – the return to creditworthiness of a substantial number of Third World and less-developed nations.

The Crumbling Concept of Four Pillars

What is the overall result of all of these fundamental forces taken together? Put simply, it is that the traditional pattern, the "four pillars" pattern, by which Canada organized its financial structures, is outdated. The structure of rules which worked so well for so long increasingly makes neither market nor regulatory sense. When we look at the combined effect of those five fundamental forces – the impact of inflation and recession, of technological change, of new financial institutions, of globalized financial markets, and of international sovereign borrowing – surely we must see that the Canadian concept of four pillars of financial services is crumbling.

We have arrived at a point where significant and wide-ranging reform, affecting every sector and every type of financial service, is needed. The regulatory process and legislative framework must change, in harmony with market practices and customer preferences. This goes beyond the regular decennial review of the Bank Act, or the long-awaited review of trust and insurance legislation. Pillar-by-pillar review makes no sense if the concept of pillars itself is outmoded.

As we proceed with that process of reform, however, Canadians should remember that good regulation is rooted in the reality of actual developments. It should not be imposed in a vacuum.

Regulation has almost always been a matter of progressive adjustments to fit changing conditions in the marketplace and that is what we need now. The process is confusing because the car continues to move while the mechanics are working on it, but the process of change itself is nothing new.

When regulation has worked well, for lengthy periods of time, it was because governments understood well what was really happening. What they built was based on pragmatic principles drawn from real experience; and to get us through the process this time, there is again a need to find such practical guidelines.

During the past twelve months, in a number of instances, sensational but less important developments have diverted attention away from more fundamental trends, basic issues and guiding principles. The difficulties of the Canadian Commercial and Northland Banks,

for example, serious as they were, still classify as isolated events which pale in importance beside the ongoing restructuring and reshaping of Canada's financial system as a whole. We should bear in mind that, taken together, CCB and Northland assets amounted to less than 1% of the total assets of the banking system in Canada.

The Guiding Principles: Economic Stability

With that as background, then, what guiding principles can be discerned? What lessons are there, from history, from the recent past, from current conditions to direct our thinking at the Royal? What should we be telling the public? What advice should we be giving government?

The first principle, surely, must be to achieve and maintain a stable economic environment. That is the first and most important condition for steady growth. Without that stability, concentration on more narrow concerns, such as regulatory reform, is ultimately pointless. If economic policy is too damaging, not even the strongest financial institutions, the strongest industrial corporations, can survive.

When we raise issues such as the deficit, or trade policy, it is the survival and prosperity of the financial system and the economy as a whole that we have in mind. During the past year, Allan Taylor and I, along with other senior executives inside and outside banking, have spoken publicly and repeatedly on liberalizing international trade, and controlling the federal budgetary deficit, for precisely those reasons. It is in *all* our interests that these fundamental challenges be overcome, and government deserves vigorous and visible support for workable initiatives in those directions.

So the first principle to bear in mind as we approach the restructuring of the financial services system is that achieving and maintaining a stable economic environment are fundamental pre-conditions.

Build on Current Strengths

The second principle is to recognize the existing strengths of the financial system and build on them. We should not be stampeded by the developments of the past year. Yes, there is clear need for legislative and regulatory reform; but overall, our financial system is strong and working well.

It was Abraham Lincoln who said that we do not strengthen the weak by weakening the strong. Let us not harm those aspects of the current system that *are* strong. Let us not create new problems in solving existing ones.

The great lesson from the CCB and Northland affairs is not that lack of confidence can destroy the weak. The lesson is that lack of confidence can be contagious, and wreak terrible havoc on some that are strong. Last year, healthy and viable institutions such as Morguard and the Mercantile were sold or merged as the contagion spread.

Unchecked, the financial virus that is lack of confidence can become an epidemic, spreading with dreadful speed.

The requirement to maintain confidence across an entire industry is a unique feature of financial services, and an inescapable obligation of the leaders in the industry, the major banks.

We now know, of course, that the events involving CCB and Northland did not result in permanent damage to the stability of the Canadian financial system as a whole. We are dealing with evolution in a strong system, not revolution in a weak one.

Safety and Efficiency

The third principle, I believe, is that we must take great care to restore and continue the essential balancing act between safety, stability and confidence on the one hand, and innovation, flexibility and efficiency on the other. Those considerations are *not* mutually exclusive. Until fairly recently the regulatory system achieved that balance, and we must insist that it be achieved once again.

That implies a clear need for regulatory approaches that will allow diversity within the industry. We need, and our customers need, diversity of organizational concept, of marketing philosophy and of approach to particular customer segments. The blurring of the lines between financial services industry sectors, the crumbling of the four pillars concept, can and should produce enormous customer benefits in terms of increased competition and business innovation. Maximizing those, while enhancing safety and stability, is the third guiding principle.

In fact, in the environment in which we now operate, regulatory restructuring should accommodate diversity of size – which brings me to the question of regional institutions, and a fourth principle.

The Regional Institutions

The failures of last year gave rise to considerable discussion concerning the viability of regional financial institutions. I have no doubts whatever that they can be viable, and that they can and should be one feature of a healthy, competitive and responsive national financial system.

Let us recall that Canada's entire banking system began as a system of regionals. Until well into this century, the Royal itself was a regional bank, firmly based in the Maritimes; with my own roots in Nova Scotia and New Brunswick, I could hardly oppose regional institutions.

But let me be quite clear about what makes them work well. Successful regional financial institutions must operate under the same standards of prudential management as any other deposit taking institution. Within their areas of operation they must ensure diversification of both deposits and loans, or they become, automatically, a problem waiting to happen.

In recent decades, the Canadian financial system has evolved to one characterized by large, national institutions. This does not mean in any sense that there is a lack of competition in a particular regional market. Neither does it mean a lack of responsiveness to local or regional needs. Those are myths.

Any new, regional financial institution founded simplistically, on either or both of those mistaken beliefs, is headed for trouble.

There are thousands of intersections in Canadian towns and cities with branches of four different financial institutions on the four corners. They are not there as a result of lack of competition. They are vivid proof of how vigorous it is.

Just slightly over 50% of the Royal's loans in Canada are to businesses and individuals located west of the Ontario-Manitoba border. We are a diversified and balanced national bank, and our strength is based on the local strength of each of over 1,400 branches. We have played a major role in the economic growth of Western Canada, and we have a big stake in it. The same can be said of what we have accomplished in Ontario, Quebec and Atlantic Canada.

The bottom line of this is simply that regional institutions can indeed be viable. They are good for the system. But they need prudent, competent management; they need to be guided by sound banking principles; and they need a business purpose beyond disdain for the status quo. Encouraging their establishment and growth is a desirable guiding principle, number four on my list. But let us dismiss the myth that regional institutions can safely ignore the realities of the marketplace.

Better Financial Services

A fifth principle is this: let us keep firmly in mind the essential objective of introducing change into our financial system, while we manage the very complex and detailed process of financial industry restructuring. This essential objective is simply to provide all Canadians with more and better financial services in the most efficient way.

Working a way through the jungle is going to require substantial patience. While there is some urgency on some aspects (such as reforms to the Canada Deposit Insurance Corporation, already partly under way), it is preferable to get it done right, rather than to get it done quickly. There is a need to identify, from the welter of events and proposals of the past, the items that really matter, and keep those lessons and objectives firmly in mind.

What has experience taught us, for example, on such key issues as co-insurance? What has it taught us on the dangers of cross-ownership between real and financial sectors, or of narrow ownership? What have we learned about the results of carving out areas of special privilege? What happens to a market when the largest, strongest and most competitive financial institutions, the chartered banks, are excluded?

We know what happens to depositor sophistication and market discipline under a deposit insurance plan that pays one hundred cents on the dollar, to a sixty thousand limit, or even worse, pays uninsured depositors with *no* limit. The system is weakened.

We know what happens when a real estate trader and speculator gets control of a trust company in the mortgage business, or when a dominant shareholder manages a financial institution to favour his interests over others. The system is weakened.

On the positive side, we know and our customers know what happens to costs, convenience and availability when banks and others are allowed to offer consumer loans and residential mortgages. That happened, in the fifties and sixties – and the system was strengthened.

The Royal Bank, and indeed the banking industry generally, is solidly on the public record as favouring broad ownership, better control of conflicts of interest, the elimination of abusive self-dealing, the introduction of co-insurance on deposits, and simultaneously increased competition for all players in all markets. We oppose being left out of broadened powers because we do not agree that our customers should be left out. That clearly would weaken the system, not strengthen it.

The aim we must remember, and governments must remember, is to serve the interests of all Canadians, the interests of Canada. Those are the interests we serve when we attract customers, when we give them more and better services, when we protect their savings – and your investment – and when we put both productively to work funding economic growth, trade expansion and jobs.

We are entering an era when international competitiveness will rely ever more strongly on interdependent financial structures and markets. As a trading nation with an already strong financial system, Canada has a significant advantage that we must build on. We would be short-sighted indeed if we ignored the clear lessons available to us.

In Summary

In summary then, five guiding principles: One, the first requirement is for a stable and productive economic environment. The deficit must be brought under control and reduced; trade policies must be adjusted to enhance and secure Canada's competitive strengths. Government needs our vocal support as it faces those challenges.

Two, the current financial system is performing well. We face evolution in a strong system, not revolution in a weak one.

Three, new regulation and new structures must restore and maintain the balance between safety and stability, and innovation and efficiency.

Four, regional institutions should continue to play their role – but that role does not consist of ignoring market realities.

Five, we should encourage and seek orderly change, based solidly on the lessons learned from past events and directed simply toward better service for all Canadians.

And with those guidelines, there is no doubt about it: we can do the job. In any field of endeavour, there is always more to be done, and therefore never room for complacency. But there should always be occasion for recognizing how far we have come, even as we focus on what lies ahead.

That is true for the Canadian economy, and for the Canadian government; it is also true for the Royal Bank. It is fully appropriate for me to conclude these remarks by paying tribute, on a personal basis, to the tens of thousands of women and men in The Royal Bank of Canada.

At the end of the Second World War, someone praising Winston Churchill for his role in the victory referred to him as the British lion. With what might be called uncharacteristic modesty, Churchill rejected the metaphor and said that he was not the British lion; he had merely, on occasion, been privileged to give the roar.

The Royal's lion – our Leo – is a symbol of the work and efforts and ingenuity of every individual who works for your bank. They, along with you the shareholders, have created the institution that exists today. They have brought the Royal to its position of industry leadership; they have created the customer loyalty and service excellence; they have demonstrated by their innovation and initiative the potential of market and regulatory change.

As the fellow who for the last few years has been "privileged to give the roar", I want to personally thank them and you for the opportunity.

A REPORT ON THE YEAR'S OPERATIONS

by

Allan R. Taylor
President and
Chief Operating Officer

Since North American companies went "in search of excellence", inspired by the book of that name a few years ago, many perhaps have forgotten that a job well done, and its commercial rewards, are the bottom line of staying in business. They mark the difference between success and failure. But excellence is a long-term achievement that cannot be measured in short-term results.

So then, what defines the "excellent company", the industry leader, the world-beater? I think it's the determination and the persistent effort, over the long haul: always to do your job as well as it can possibly be done – by anyone.

This is our own measure and our continuing aim for The Royal Bank of Canada.

The Measures of Excellence

Excelling at our job as a supplier of financial services means much more to us than short-term commercial success. First and foremost, the drive to excel attracts the best people. It has enabled us to engage the brainpower and effort of some 40,000 of the best, in Canada and 43 countries around the world. Their knowledge and professional skills *are* the Royal Bank today. And their ideas are shaping us for the rest of the century – and beyond.

In our collective pursuit of excellence, our highest priority is public confidence in the strength and integrity of our organization and the value of the services we provide. The confidence of customers and shareholders is the stock-in-trade of any business. But, as Mr. Frazee has said, it is a bank's lifeblood.

Over the years, the level of customer preference for – and satisfaction with – Royal Bank service, has made us the Canadian giant of international finance, and one of the strongest banking organizations in the world.

In today's fiercely competitive market for financial services here at home, our commitment to customers is only matched by their commitment to us. One in four independent businesses, 80,000 Canadian farmers, and 6½ million individual Canadians, *choose* to be customers of the Royal Bank. Our depositors, at home and abroad, now entrust us with close to $84 billion of their savings. And we have more than 100,000 shareholders and debenture-holders. You have nearly $6 billion of your money working for you in the Royal Bank.

This level of confidence wasn't built in a day. Our position in the market had to be *earned* – each new day – by the quality of our customer service, our steady growth and profitability, over 116 years.

Tested by the Times

This past year was no exception – even though the integrity and stability of the financial system continued to be severely tested, as Mr. Frazee has described.

On the whole, 1985 was a better year for Canada – one that proved the power of this land. At the Royal, we had predicted that real growth in the Gross National Product would overtake the United States. Before the year was out, the Canadian economy was growing at an annual rate of 4 per cent – 50 per cent faster than the United States. Canada was leading the industrial West, and tailgating Japan.

While the recovery has been slowing slightly, it is showing every sign of staying power. Canada should be able to maintain the lead, not far off today's respectable pace, over the next two years.

Unfortunately, not every part of Canada has been a full partner in new economic growth. There are still some problem areas; and they are not confined to any one province or industrial sector, or to North America alone.

Nationally and internationally, major resource industries are handicapped by continued weakness in a number of world commodity prices. Interest rates are still too high – and they are being kept high by the size of national deficits, not only in Canada and the United States, but also in other countries. At the same time, protectionist trade barriers are on the rise in the industrialized world. If unchecked, they will become barriers to the future growth of major trading nations such as Canada, as well as to the exports of Third World borrowers, trying to earn their way to economic recovery.

Here at home, last year's marked improvement in business conditions was not fully reflected in the demand for commercial credit. Business investment in Canada has not yet come back up to pre-recession levels; and some businesses are still rebuilding their balance sheets. On the other hand, some 90,000 new Canadian companies commenced operations in 1985, while the demand for home mortgages, personal credit and consumer services continued to grow. And in both the independent business and consumer markets, the competitive drive of the Royal's people gained us market share.

International Progress

Just as important as reaching out for new business is looking after the customers we already have, including corporate clients still in financial difficulty. For the second consecutive year, we witnessed real progress in our work with these clients, both in Canada and abroad. In 1984, the turnaround had been strongest in Canada. In 1985, directly as a result of the improving health of business borrowers, loan losses fell much further on the international side.

Also, in spite of the many uncertainties still blurring the outlook for the Third World debt situation, there were no surprises in this third year of international co-operation and stability.

As one of the world's largest banks, with more than a century of experience in international lending and trade finance, the Royal has naturally been called upon to do its share in helping to work out the problems of the developing countries, particularly in Latin America. Along with the more than 200 commercial banks involved, the multilateral agencies such as the International Monetary Fund, and the governments of both borrowing and lending countries, we recognize the importance of achieving the return to creditworthiness and, beyond that, the full-fledged recovery of the debtor nations.

This is the aim of the second phase of the international effort. The first phase – the process of loan reschedulings, stretching out payment terms – has provided an immediate solution to immediate problems. Now, more fundamental progress is required. For the long-term correction of the debt overload, there must be improved, long-term economic growth in the developing world.

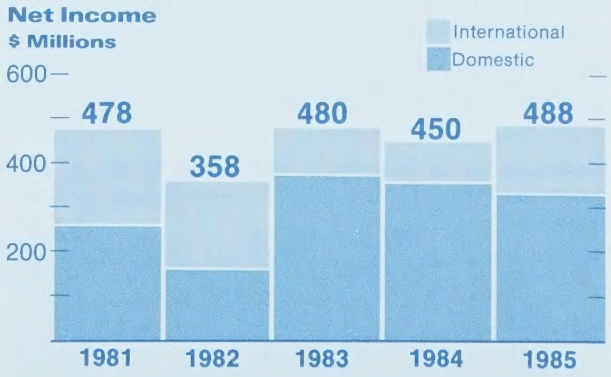
Certainly, sound management of their domestic economies by the major borrowers continues to be a large part of the answer. But equally vital to their growth prospects are the policies of the industrialized countries – particularly, lower interest rates through reduced fiscal deficits, and the avoidance of protectionism. At the same time, renewed economic development necessarily requires some new funding.

The recognition, in principle, that governments of creditor nations have an important role to play is what makes the recent international debt proposals of the U.S. Secretary of the Treasury, The Honourable James Baker, such a positive initiative.

As yet, the role of creditor governments has not been adequately defined in detail. This will take time. It will also take time to orchestrate the support of all the major participants, which must include the creditor and debtor governments and government-funded international agencies, such as the IMF and the World Bank, as well as the commercial banks. But this new commitment by the U.S. Administration enhances the outlook for eventually resolving the international debt problem.

The Quality of Growth

Looking back over 1985 as a whole, it may be the highest compliment of all that the Royal's steady performance in unsteady conditions has come to be expected. We had a good year – better than last year. We expect to continue to improve in the years ahead.

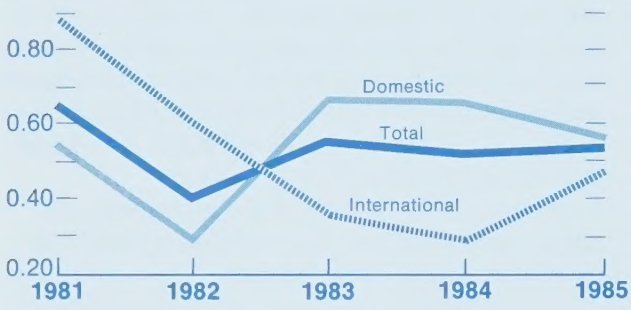


Our net income of $488 million in fiscal 1985 represents an 8 per cent increase over 1984, and the highest earnings in the Royal Bank's history.

Again this year, Domestic operations contributed the greater share of the Bank's net income, though down slightly from 1984. Internationally, there was a sharp improvement over 1984, mainly as a result of higher interest receipts on our loans to foreign public sector borrowers. As well, both in Canada and abroad, customer response to the Royal's fee-based services was very strong.

However, absolute dollars are not necessarily the most meaningful measure of financial performance. The Royal's basic earnings per share rose to $4.28 – 3 cents higher than last year, but still well below the record level of $5.75 earned in 1981.

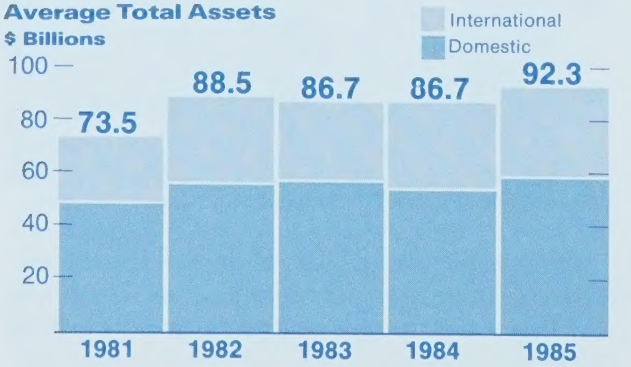
Return on Assets
% of Average Assets



A key measure of bank profitability, the return on loans and other assets, moved up to 53 cents for each $100 in assets. This is also our average return on assets, right through the recession, for the last five years.

In the longer-term, our target is 70 cents for each $100 in assets – a level of profitability that will provide shareholders with an improved return on their investment. Major factors in achieving this goal will include improvements in the quality of our loan portfolio, in our productivity and in our capital ratios.

Average Total Assets
$ Billions

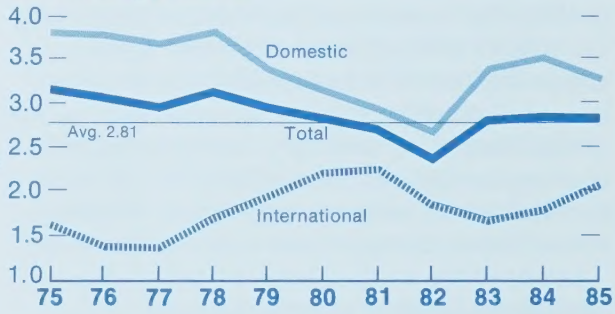


Last year, a substantial portion of the $5.6 billion increase in our average total assets of $92.3 billion came in the consumer market. We made strong market share gains in both personal loans and home mortgages for Canadian customers. The Royal is Canada's largest provider of home mortgage financing. Today, this lending represents fully one-sixth of our total loan portfolio.

Other factors contributing to the growth in assets included an increase in our strong liquidity position; larger holdings of government securities; and the effect of higher exchange rates on the translated value of our foreign currency assets.

At year-end, total assets were $96 billion. The Royal is well on its way to becoming Canada's first $100-billion bank – an important milestone in our history.

Net Interest Margin
% of Average Assets

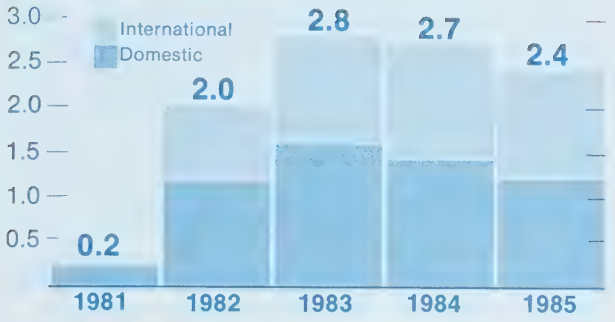


With the growth in assets, and repayment of overdue interest both in Canada and abroad, the Royal's net interest income climbed to $2.6 billion in fiscal 1985.

The turnaround in International operations is clear in the sharp increase in that sector's net interest margin, after a very lean year in 1984. However, the Domestic margin narrowed. So, the Bank's total spread – the difference between what we pay on deposits and what we can earn on loans and other assets – came down to 2.83 per cent, just about our average for the past decade.

The narrower Domestic margin resulted from aggressive competition for new loan business, which lowered pricing on assets. Meanwhile, consumers moved their savings to higher yielding accounts, pushing up our deposit costs. Both borrowers and depositors benefited – and since we won and kept their business, so did the Royal Bank.

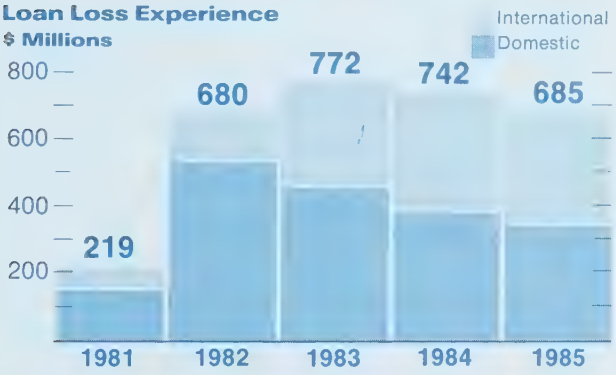
Non-Accrual Loans
$ Billions at October 31st



Among the most important factors compressing net interest margin are, of course, the high level and low yield of non-accrual loans. However, there was progress in 1985.

The total of non-accrual loans declined by some $300 million. At the same time, many of these accounts do make interest payments. In fact, the yield on this portfolio more than doubled – to 5.6 per cent.

Loan Loss Experience
$ Millions

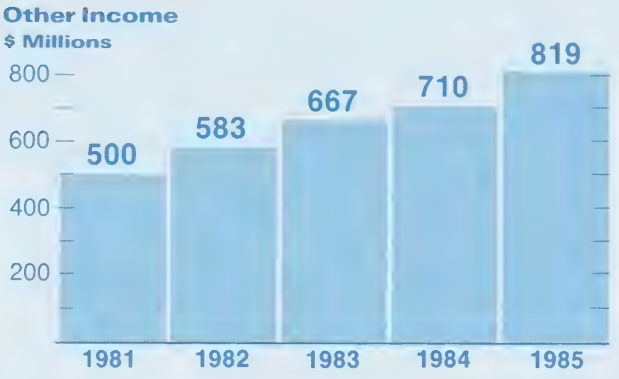


Another positive development is that loan losses are past their peak, declining for the second year in a row. Our domestic loan loss experience fell by $35 million. On the international side, losses came down by $22 million, even after another substantial increase in our general provision for country lending. Without that general provision, our international loan loss experience would have been down by close to 50 per cent in 1985.

As you are aware, the Canadian banking industry is in the process of establishing prudential reserves against loans outstanding to some 32 troubled borrowing nations. The Royal remains in complete agreement with this practice. By the end of 1986, our general provision will exceed $600 million – within the target range suggested by regulatory authorities. Of course, building up this prudential reserve means that our reported loan loss figures are sharply higher than they would otherwise have been.

Building on Strengths

Other Income
$ Millions

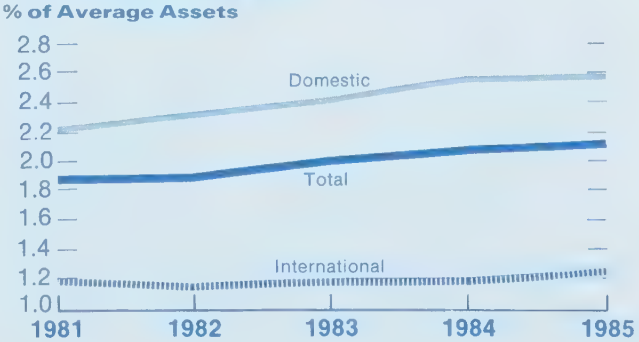


Another area of increasing strength is our ability to generate non-interest income, which reached a record of $819 million in 1985 – an increase of $110 million over 1984.

In previous years, I have spoken of the benefits of the Royal's strategic diversification, in terms of the balance of International and Domestic operations; of our funding sources; and of assets diversified by region, by market segment and by industry. The ever-expanding range of new and specialized fee-based services that we offer Royal Bank customers also diversifies our sources of income.

So, for example, the Royal is already a world leader in generating revenues from foreign exchange trading. And last year – in addition to good growth in fees for retail and commercial banking services – securities commissions, including underwriting revenues from our Merchant Banking operations, grew by almost 35 per cent.

Non-Interest Expenses
% of Average Assets



To develop, market and deliver the best value in financial services to our clients, we believe that the most effective investments we can make are: first, in the recruitment, compensation and training of outstanding people; second, in our advanced communication and information processing technology. Both are fundamental to increased productivity.

In 1985, increases in these strategic expenditures accounted for a large part of the overall 8-per cent growth in non-interest expenses. But to keep adding value to customer service also involves holding the line on other business costs; and we've had some success over the last few years.

Now and in the future, we will keep striving for improved productivity, reaching for our goal of becoming an even more efficient provider of financial services.

Return on Equity
In Per Cent

A further measure of the Bank's financial performance, which permits comparisons with other industries, is the return on common shareholders' equity. At 13.5 per cent, our return on equity should be viewed in light of the fact that reported earnings for 1985 are not overstated by the loan loss averaging process to the same extent as in previous years. I'll come back to this important point in a moment.

Growth in Capital
$ Millions

A key strategy through these unsettled times has been to keep building our capital base. In 1985, our total capital funds grew by a solid 17 per cent, or $840 million. Of this, internally-generated capital contributed $234 million – more than triple the amount of 1984. Capital raised from external sources included $192 million in common equity from our Shareholder Dividend and Share Purchase Plan, and a $413 million increase in subordinated debentures.

Capital Funds
$ Billions at October 31st

The Royal's total capital stood at nearly $6 billion at the end of 1985, and our capital ratios are now the strongest they have been in more than a decade.

The importance of this huge capital underpinning cannot be overemphasized. It is the solid foundation for the Royal's ongoing growth.

Coming back to the subject of internally-generated capital, I would like to tell you why it is a particularly critical measure of the Royal's current and future performance. The key is the relation to the "book value" of shares.

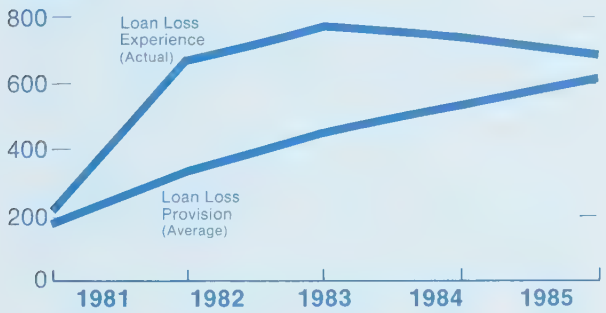
Book Value Per Share
At October 31st

In 1985, the growth was $2.25 in book value per share. This was a direct result of last year's tripling in the rate of internal capital generation – which, in turn, partly reflects the improvement in the level of loan losses. Let me explain why.

You may recall from our last two Annual Meetings, when I illustrated the point, that Canadian banks use a five-year rolling average to calculate the loan loss figure to be charged against earnings. The difference between the actual and the average loan loss figures is charged directly against capital. In the last few years, this averaging process has resulted in the *overstatement* of earnings that I referred to earlier. However, when the actual loss figure declines *below* the five-year average, the result will be a *credit* to capital and an *understatement* of earnings.

Loan Loss Experience versus Loan Loss Provision

$ Millions



That "crossover point" is coming up on our horizon now.

Its effect, over the next few years, should be growth in the book value of our shares, well in excess of what growth in reported earnings would indicate. As a recent study of Canadian banks by the New York investment firm of Salomon Brothers pointed out, "the Royal will emerge as one of the prime beneficiaries of the crossover phenomenon, particularly in 1987".*

The Years Ahead

Whatever the future holds, the Royal Bank's strategic course is set. Our continuing aim, as I've said, is nothing less than excellence, building for the long-term, day after day. And for us, excellence is defined by our customers.

Getting closer to customers has made basic business sense to us for more than a century. It was the basis for building the Royal's operating network across Canada and around the world. Today, our reach is global. Our experience extends into every service sector of the financial marketplace. In this new competitive era, we aim to excel by *knowing our customers* – knowing what they want now, what they want tomorrow, and always being ready to match our service to their needs.

This is the guiding principle behind the three key components of our strategy:

- specialized service
- professional training
- technological leadership.

We are continually expanding our knowledge of today's and tomorrow's segmented markets to target our sales, and tailor our services, to the specialized requirements of customers – from consumers to corporate treasurers, nationally and internationally.

A natural priority of this "account management approach" is ensuring that all our customer-contact people have the very best in professional training. Indeed, in every area of our business, training and development is an ongoing investment in the quality of our customer service and our future productivity.

For the same reasons, we will continue to make substantial investments in the research and development of banking technology. Consumers benefit from the convenience of automated financial services. Business clients benefit from customized service that enhances their companies' productivity. Today, the Royal Bank is already an international leader in information processing and communication technology; and we intend to have the innovative products and service capabilities to maintain that lead.

Our financial resources, professional expertise and technological edge are some of the reasons why many millions of people around the world put their confidence and their business in the Royal Bank. But the key is a uniquely human factor: the unceasing dedication of our people...to customers...to service...to *excellence.*

On this basis, now and in the future, I am confident that The Royal Bank of Canada will keep growing from strength to strength.

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* *The Canadian Banks: An Investment Strategy Based on Enhanced Book Values (Salomon Brothers Inc. – November 1985).*

MINUTES OF THE 117TH ANNUAL MEETING OF COMMON SHARE HOLDERS

The 117th Annual Meeting of the Common Share Holders of The Royal Bank of Canada was held at the Head Office of the Bank in Montreal on Thursday, January 9, 1986 at 11:00 a.m. As designated by the Directors the Chairman of the Board, Mr. Rowland C. Frazee, acted as Chairman of the meeting and the Secretary of the Bank, Mr. R.J. Moores, acted as Secretary. The Chairman declared that as notice of the meeting had been duly given and a quorum was present, the meeting was properly convened. The Chairman advised that the languages of the meeting were English and French. He then explained the voting procedure to be followed and appointed Messrs. F. Gareau and W.J. Johnston, officers of Montreal Trust Co. to act as Scrutineers.

The Chairman stated that a copy of the minutes of the last Annual Meeting of Shareholders of the Bank held on January 10, 1985 had been sent to each Shareholder as required by the Bank Act and unless there was any discussion they would be taken as read and adopted. Accordingly, the minutes of the last meeting of shareholders were adopted.

The Chairman referred to the Annual Statement as at October 31, 1985, copies of which had been distributed to Shareholders, and to the Directors' Report, and called upon the Secretary to read the Directors' and Auditors' Reports.

12 DIRECTORS' REPORT

To the Shareholders,
The Royal Bank of Canada

The Directors of The Royal Bank of Canada have pleasure in submitting to the shareholders the one hundred and sixteenth annual Directors' Report as well as the Annual Statement for the financial year ended October 31, 1985, which includes the Consolidated Statement of Assets and Liabilities of the Bank, and the Consolidated Statements of Income, Appropriations for Contingencies and changes in Shareholders' Equity for the year then ended and the Auditors' Reports with respect to those statements.

In accordance with the usual practice, the assets of the Bank have been carefully valued and provision made for all bad and doubtful debts.

During the year, 16 branches were opened and 16 were closed in Canada; and 1 was opened and 16 were closed outside Canada. The total number of branches in operation on October 31, 1985 was 1,497 of which 1,440 were in Canada and 57 were in other countries; in addition the Bank owns more than 10% of the voting shares in 100 subsidiaries and affiliates throughout the world.

The Directors extend to all members of the staff, both in Canada and abroad, an expression of sincere appreciation for their contribution to the success of the Bank during the past year.

Respectfully submitted

Rowland C. Frazee
Chairman and Chief Executive Officer

Montreal, January 9, 1986

The Auditors' Report was then read by the Secretary (this report appears on page 58 in the Annual Report).

The Chairman then said:

"Before dealing further with these reports, I should like to make some comments.

I would like to place on record the appointment of three new directors since the last meeting of shareholders. I would ask each of those present to stand and be recognized as I call their names: Mr. Arden R. Haynes, Toronto, on June 11, 1985 (Mr. Haynes is unavoidably absent today); Mr. Alexander B. Marshall, London, England, on October 1, 1985, and Mr. Kenneth C. Rowe, Halifax, Nova Scotia, on November 5, 1985. Gentlemen, welcome to the Royal Bank family.

I must also advise you that five directors will not be standing for re-election today. We were particularly saddened during the year by the passing of Mr. W.O. Twaits who served with distinction as a member of the Board since January 1961. Mr. Twaits was also a non-officer Vice-President of the Bank for 13 years, and his wise counsel was often sought and fully given.

Also, the following will not be standing for re-election for a variety of reasons:

Mr. G. Allan Burton is ineligible for reason of age. Mr. Burton has served since 1964, and after 20 years he will be sorely missed. Mr. D.R. Getty, who has served since February 27, 1980, resigned from the Board during the year prior to becoming Premier of Alberta. We congratulate Mr. Getty on this outstanding accomplishment, and wish him well in his new role. Mr. C.N. Woodward of Vancouver, who served since January 1961, also left our Board during the year. Mr. Robert A. Utting, who retired as Vice-Chairman of the Bank on May 31st last, after a long and distinguished career, is ineligible by reason of the Bank's policy concerning continuance on the Board of former officers/directors. This guideline was introduced in 1978 and was made applicable to officer/directors appointed subsequent to that date, excluding the C.E.O. Mr. Utting spent 45 years with the Bank in Canada and abroad, and served on the Board since 1980.

For their devotion to the interests of the Bank during the years in which they served as directors, I would like to express our sincere thanks. We shall miss them.

I now want to recognize a special group here with us today. As many of you know, it has been our usual if not invariable custom to invite a number of employees and their spouses, from other than Head Office, to join us for the Annual General Meeting. They represent branch and departmental offices, in Royal Bank locations around the world, and in communities across Canada – from Rio de Janeiro to Yellowknife, and from Melbourne to Geneva. They represent thousands of their fellow employees in those offices, and I would ask them to stand and be recognized as a group."

The Chairman then delivered an address entitled "Towards a Financial System for the Year 2000: A Confident Departure". (The text of Mr. Frazee's address will be found starting on page 1 of these proceedings.)

The Chairman then called upon Mr. Allan R. Taylor, President and Chief Operating Officer, to address the meeting. (The text of Mr. Taylor's address will be found starting on page 6 of these proceedings and additional information will be found in the Annual Report.)

The Chairman then declared the meeting open for the nomination of directors.

Mr. C.E. Medland nominated the following persons to be Directors of the Bank:

Robin W. Adam, John Anderson, John A. Armstrong, Ian A. Barclay, G.H. Blumenauer, Robert W. Campbell, Frank B. Common, Jr., Q.C., Camille A. Dagenais, C.C., LL.D., Mitzi S. Dobrin, G. Campbell Eaton, O.C., M.C., C.D., LL.D., John R. Evans, C.C., M.D., Jock K. Finlayson, Rowland C. Frazee, W.D.H. Gardiner, Arden R. Haynes, Charles H. Knight, Walter F. Light, P.L.P. Macdonnell, C.M., Q.C., Clifford S. Malone, Alexander B. Marshall, J. Pierre Maurer, Donald K. McIvor, Dawn R. McKeag, W. Earle McLaughlin, J.W.E. Mingo, Q.C., Pierre A. Nadeau, J. Edward Newall, Paul Paré, Ralph A. Pfeiffer, Jr., Neil F. Phillips, Q.C., Herbert C. Pinder, Claude Pratte, Q.C., Charles I. Rathgeb, Kenneth C. Rowe, Allan R. Taylor, Peter N. Thomson, John A. Tory, Q.C., W.P. Wilder and H.E. Wyatt.

Mr. W.J. Reid seconded the nominations.

The Chairman said: "Each of the persons nominated is prepared to serve as a director and has filed a statement that he or she qualifies under the provisions of the Bank Act. As a group, these nominees meet the requirements for the composition of a board of directors of a bank under the Bank Act."

The Chairman then asked if there were any further nominations.

It was moved by Mr. Yves Fortier and seconded by Mr. Ian B. Shaw:

THAT the nominations be closed and that each of the persons nominated be elected a Director of the Bank.

The Chairman stated that the motion was open for discussion. There being no discussion, the Chairman put the motion to the meeting. A ballot was taken and, upon receiving the Scrutineers' Report of the balloting, the Chairman declared the motion duly carried and the slate of names, as proposed, duly elected Directors of the Bank.

It was moved by Mr. C.I. Rathgeb and seconded by Mr. H.C. Pinder:

THAT Touche Ross & Co., and Deloitte Haskins & Sells, be and they are hereby appointed auditors of the Bank until the next ensuing Annual Meeting of the Common Share Holders.

The Chairman stated that the motion was open for discussion. There being no discussion, the Chairman put the motion to the meeting. A ballot was taken and, upon receiving the Scrutineers' Report of the balloting, the Chairman declared the motion duly carried.

It was moved by Mr. P.A. Nadeau and seconded by Mrs. D.R. McKeag:

THAT the remuneration of the Auditors covering their appointment until the next ensuing Annual Meeting of Common Share Holders be fixed at a sum not to exceed $565,000 to be divided among them.

The Chairman stated that the motion was open for discussion. There being no discussion, the Chairman put the motion to the meeting. A ballot was taken and, upon receiving the Scrutineers' Report of the balloting, the Chairman declared the motion duly carried.

The Chairman then said: "In the Management Proxy Circular sent to all shareholders with the Notice of the Annual Meeting, you were asked to confirm an amendment to Section 1.1 of By-Law Two. This concerned an increase in the maximum amount that may be paid as Directors' Remuneration in each fiscal year, to $1,250,000.

A figure of $950,000 was established by the Shareholders in January 1981, and has remained unchanged since then.

Given the increasing burden of responsibility which goes with membership of a board, and given the growing scope and complexity of the Bank's business, with a concomitant increase in the amount of time and effort needed to fulfill Director's responsibilities under the Bank Act, it is now considered appropriate to effect an increase in fees. Accordingly, at a meeting on November 5, 1985, the Board passed a resolution amending Section 1.1 of By-Law Two to provide for a maximum appropriation of $1,250,000. This increase in the maximum aggregate figure will permit increases in retainers and meeting fees to bring them into line with the levels paid by other similar corporations. It should be noted that the actual remuneration of each director is governed by such factors as actual attendance at meetings and membership or chairmanship of Committees of the Board.

I will now entertain a motion to ratify and confirm an amendment to By-Law Two of the By-Laws of the Bank increasing the maximum appropriation for Directors' Fees to $1,250,000."

It was moved by Mr. George M. Lengvari, Jr. and seconded by Mr. John J. Rowen:

THAT the following amendment to the By-Laws of the Bank passed by the Board of Directors on November 5, 1985 be and is hereby ratified and confirmed;

THAT Section 1.1 of By-Law Two of the By-Laws of The Royal Bank of Canada be amended by deleting the figure $950,000 and substituting therefor the figure $1,250,000. Section 1.1 of By-Law Two shall as a result read as follows:

> In each year any sum not exceeding $1,250,000 in aggregate may be paid to the Directors as remuneration for their services as Directors in such proportions as the Directors may determine.

The Chairman stated that the motion was open for discussion. There being no discussion, the Chairman put the motion to the meeting. A ballot was taken and upon receiving the Scrutineers' Report of the balloting, the Chairman declared the motion, which must be approved by an affirmative vote of not less than 66 2/3% of the votes cast on the matter, duly carried.

Mr. Ian A. Barclay, Director, expressed the thanks of the Shareholders to the executive officers and staff of the Bank for the efficient manner in which they have performed their respective duties.

Mrs. Nancy McInerney-Lacombe replied on behalf of the staff and Mr. M.L. Turcotte on behalf of the officers.

The Chairman then made the following remarks:

"As is customary, there was a meeting of the Board of Directors the day before this Annual Meeting. At yesterday's meeting the Board had some additional duties to perform. The first and most important was to name my successor and, accordingly, the Board has appointed Allan R. Taylor as Chairman and Chief Executive Officer, effective June 1, 1986. Mr. Taylor is an experienced and seasoned officer, and his performance as President and Chief Operating Officer over the past several years makes it clear that leadership of the Bank will be in good hands.

The Board yesterday made some other senior management appointments, and I would like to identify them. As I read the names, I would like the officers to stand and be recognized:

– R.G.P. (Geoff) Styles – Vice-Chairman, responsible for institutional/corporate banking, investment banking and treasury operations.

– A.H. (Mike) Michell – Vice-Chairman, responsible for corporate resource management.

– J.E. (John) Cleghorn – President, responsible for worldwide market management, including the global delivery network of personal (retail) and commercial branches, subsidiaries and affiliates.

– M.J. (Joe) Regan – Senior Executive Vice-President, Personal and Commercial Banking.

– B.D. (Brian) Gregson – Senior Executive Vice-President, Credit.

– R.C. (Rob) Paterson – Senior Executive Vice-President, Treasury and Money Markets.

In the interim, Hal E. Wyatt continues as a Vice-Chairman of the Bank, with special responsibilities in Australia and the Far East.

Over the years the Royal Bank has frequently been commended by clients, governments and the media as having almost an excess of talented and dedicated people ready to take the helm. That is certainly the case today, and I can assure you there is great management depth behind the executives just named.

The men and women who comprise our management team give us a strength that will ensure orderly succession and the continuing growth and prosperity of your Bank.

Before I declare the meeting open for other business, I would like to comment briefly on two matters which have attracted public interest during the year, both of which have been discussed by your Board of Directors, and upon which some shareholders have corresponded with us.

The first is South Africa, and our policy towards it. The second is popularly referred to as "money laundering".

As you are no doubt aware from newspaper reports, conditions in the Republic of South Africa have deteriorated tragically during the past year, with the Government declaring a state of emergency, and with violence and death becoming a daily occurrence. During the year, as well, the issue of South Africa's apartheid policies has assumed a high public profile in Canada. The Canadian Government has firmly expressed its disapproval of apartheid, and announced a number of sanctions, including encouragement for Canadian banks to cease any lending to the South African Government and its state agencies, and to cease any purchases of the Krugerrand, South Africa's gold coin.

At the same time, a number of Canadian activist groups have expressed their views about companies they believe are lending support to the South African regime, and many institutional investors such as Canadian municipalities and universities have adopted policies of disinvestment in such companies. Some groups, mistakenly believing that the Royal Bank – or its subsidiaries – was lending to South Africa, directed protests at the Bank. With all this as background, I felt it would be appropriate at this meeting to state our policy once again, so as to avoid any misunderstanding. Some of you may recall this subject has been addressed before in these meetings, so I will, therefore, be brief.

Our policy is this: The Royal Bank of Canada abhors the racist policy of apartheid, and has frequently stated this publicly. Our policy on lending is that we will make no loan, to any borrower anywhere, if in our judgement the funds would be used to support South Africa's apartheid policy, or the application of its pass-law system. This policy is followed not only by the Bank itself, but by all controlled subsidiaries. The effect of this policy has been that we have not made any new loans, nor renewed any earlier loans, to the Government of South Africa or any of its state agencies, for almost a decade.

As you can imagine, when the Canadian Government urged Canadian banks to cease lending to the South African public sector, we were pleased to be able to confirm that we had for many years been following the policy they were proposing.

Those of you who recall various discussions we have had in these meetings with representatives of the churches will realize that we grappled with this issue long before it came to its recent peak in Canadian public attention.

The second matter for me to comment on is what the newspapers are fond of calling "money laundering". Essentially, this term arises because there are certain criminal activities – notably the drug trade – which generate for its perpetrators huge amounts of cash, usually in relatively small bills. The criminals' problem is that large amounts of cash are difficult to transport, keep safe, and use. So criminals try to avail themselves of the services of the banking system, by converting this cash into book entries – deposits, initially – which can then easily be transferred from place to place, country to country, person to person, by way of banking instruments. By this conversion from cash to bank item, dirty money is rendered "clean" - "laundered".

Given the importance of the principle of banker-client confidentiality, and the ordinary client's right to financial privacy, criminals also wish to avail themselves of the banking system to protect themselves from the investigative activities of law enforcement agencies.

In the past year, law enforcement agencies in the United States and Canada have launched new strong attacks upon organized crime, and especially upon the criminals' attempts to use the banking system in North America and in countries with banking secrecy laws such as the Bahamas and the Cayman Islands.

All this has brought to prominence the question of what precautions banks can and should take to avoid being drawn – albeit unwittingly – into a position of assisting criminals in their activities. I can tell you that we in the Royal Bank are determined to do everything in our power to avoid being placed in that position. We have taken additional precautions, warned all our field people, and, additionally, formed a working group of senior officers charged with the task of seeing whether there are more, or different, things we can do to make sure The Royal Bank of Canada does not act as a banker to crime.

Naturally, it would not be appropriate for me to state publicly the details of our precautions, but I do wish to assure the Shareholders that this is a matter we take very seriously indeed."

The Chairman continued:

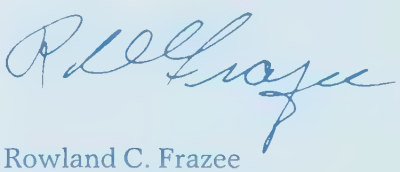
"Is there any other business to come before this meeting? Would anyone wishing to raise a matter of business, to comment, or to ask a question, please wait till a microphone can be brought to them, give their name, and indicate whether they are a Shareholder or not."

A Shareholder sought assurance that the Head Office of the Bank would remain in Montreal. In replying, the Chairman stated that no change is contemplated in the location of the Bank's Head Office. Furthermore, the President-Designate and three of the five senior appointees mentioned earlier in the meeting would be located in Montreal. Mr. Taylor will continue to share his time between Toronto and Montreal.

In response to a Shareholder's comment on the dilution aspects of the Bank's Shareholder Dividend and Share Purchase Plan, Mr. Taylor replied that this matter will be subject to ongoing review.

There being no further business to transact, the Chairman declared the meeting terminated.

R.J. Moores
Vice-President and
Secretary



Rowland C. Frazee
Chairman and Chief
Executive Officer

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THE ROYAL BANK OF CANADA

Notice of the Annual Meeting of Common Share Holders and Management Proxy Circular

THE ROYAL BANK OF CANADA

Notice of the Annual Meeting of Common Share Holders

NOTICE IS HEREBY GIVEN THAT the Annual Meeting of Common Share Holders of The Royal Bank of Canada will be held in Le Grand Salon, Queen Elizabeth Hotel, 900 Dorchester Blvd. West, Montreal, Quebec, Canada on Wednesday, the 7th day of January 1987 at 11:00 o'clock in the forenoon for the following purposes:

(1) to receive the Report of the Directors and the Financial Statements of the Bank for the year ended October 31, 1986, and the Auditors' Report thereon,

(2) to elect Directors,

(3) to appoint Auditors,

(4) to fix the Auditors' remuneration,

(5) to transact such other business as may properly be brought before the meeting.

Montreal, December 2, 1986

BY ORDER OF THE BOARD

R.J. MOORES
Vice-President and Secretary

IMPORTANT

Shareholders who are unable to be present at the meeting are requested to sign and return the enclosed form of proxy in the envelope provided for that purpose. Proxies must be received at the Montreal office of the Transfer Agent at least 48 hours prior to the meeting.

Management Proxy Circular

(as of November 3, 1986)

Solicitation of Proxies

THIS MANAGEMENT PROXY CIRCULAR IS FURNISHED IN CONNECTION WITH THE SOLICITATION BY THE MANAGEMENT OF THE ROYAL BANK OF CANADA (THE "BANK") OF PROXIES FOR USE AT THE ANNUAL MEETING OF THE COMMON SHARE HOLDERS OF THE BANK TO BE HELD ON THE 7TH DAY OF JANUARY 1987 AT THE PLACE AND FOR THE PURPOSES SET FORTH IN THE NOTICE OF MEETING ACCOMPANYING THIS MANAGEMENT PROXY CIRCULAR. The cost of solicitation will be borne by the Bank. The solicitation will be primarily by mail. However, the directors, officers and regular employees of the Bank may also solicit proxies by telephone, telegram or in person.

Voting Shares and Principal Holders Thereof

On November 3, 1986, the Bank had outstanding 106,522,170 Common Shares. Subject to the provisions of the Bank Act, Shareholders as at record date of November 20, 1986 are entitled to one vote for each such share held. Shareholders who acquire their shares subsequent to November 20, 1986 may acquire voting rights provided they request the Bank not later than 10 days before the meeting to add their name to the voters' list.

To the knowledge of the Directors and Officers of the Bank, no Shareholder was the beneficial owner of record on November 3, 1986 of more than 10% of the outstanding common shares of the Bank.

Voting Restrictions

Under the provisions of the Bank Act, the voting rights pertaining to a share of the capital stock of the Bank may not be exercised if

(a) the Shareholder is a resident of Canada who holds the share in the right of, or for the use or benefit of, a non-resident;

(b) the Shareholder holds the share in the name or right of, or for the use or benefit of, the government of Canada or of a province, or an agent thereof (including an official, trustee or corporation administering, managing or investing a fund established to provide compensation, hospitalization, medical care, annuity, pension or similar benefits to particular classes of individuals, or moneys derived from such a fund), or the government of a foreign state or political subdivision, or an agent thereof;

(c) the share is held in the name or right of, or for the use or benefit of, a person and the total number of shares held by or for that person, or that person and other persons deemed to be associated with him, exceeds 10% of the outstanding shares of the Bank; (a holder of 5,000 shares or less is assumed not to be associated with any other Shareholder);

or

(d) the share is held by or on behalf of a guarantee fund or pension fund to which a bank or a Quebec savings bank is a contributor.

In certain cases, voting rights may be exercised notwithstanding the restrictions referred to above.

The foregoing is a summary only. A copy of the relevant sections of the Bank Act will be forwarded to any Shareholder upon request made to the Secretary of the Bank at the Bank's Head Office.

Appointments and Revocation of Proxies

The persons named in the enclosed Form of Proxy are Directors and Officers of the Bank. SHAREHOLDERS DESIRING TO APPOINT SOME OTHER PERSON TO REPRESENT THEM AT THE MEETING MAY DO SO (see Note 3 on the Form of Proxy), either by inserting such person's name in the blank space provided in the Form of Proxy and deleting the names printed thereon or by completing another proper Form of Proxy and, in either case, delivering the completed Proxy to the Transfer Agent of the Bank at least 48 hours prior to the meeting.

A Shareholder who signs and returns the enclosed Form of Proxy may revoke it at any time before it is acted upon by depositing written notification at the Head Office of the Bank not later than the last business day preceding the day of the meeting or with the Chairman of the meeting on the day of the meeting or an adjournment thereof.

Voting Secrecy

Proxies are counted and tabulated by the Bank's Transfer Agent in such a manner as to preserve the confidentiality of individual shareholder votes, except (a) where the shareholder clearly intends to communicate his or her individual position to management, and (b) as necessary to meet the requirements of applicable law.

Exercise of Discretion by Proxy

The shares represented by any Proxy in the form enclosed herewith and appointing the persons designated thereon or any of them to represent the Shareholder at the meeting will be voted in accordance with the specifications given by the Shareholder. IN THE ABSENCE OF ANY CONTRARY INSTRUCTION, THE SHARES REPRESENTED BY PROXIES RECEIVED BY MANAGEMENT WILL BE VOTED ON ANY BALLOT WHICH MAY BE HELD "FOR" THE ELECTION OF THE MANAGEMENT NOMINEES FOR DIRECTORS, "FOR" THE APPOINTMENT OF THE AUDITORS NAMED HEREIN, "FOR" THE FIXING OF THE REMUNERATION OF SUCH AUDITORS, AND "FOR" THE MANAGEMENT PROPOSALS GENERALLY.

The enclosed Form of Proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the Notice of Meeting. As at the date hereof, Management is not aware that any other matter is to be presented for action at the meeting. If, however, other matters properly come before the meeting, the persons designated in the enclosed Form of Proxy will vote thereon in accordance with their judgement pursuant to the discretionary authority conferred by the Proxy with respect to such matters.

A simple majority of the votes cast at a meeting, whether by Proxy or otherwise, will constitute approval of any matter submitted to a vote at the meeting.

Election of Directors

The Board consists of a minimum of 20 and a maximum of 50 Directors, who are required to be elected annually. The persons named on the enclosed Form of Proxy intend to vote for the election of the nominees whose names are set forth below and who are now Directors. Each Director will be elected to hold office until the next Annual Meeting of Shareholders or until such office is earlier vacated.

The Board of Directors does not have an executive committee. DIRECTORS WHO ARE MEMBERS OF THE AUDIT COMMITTEE ARE SO DESIGNATED. The undernoted table sets forth the names of the persons proposed to be nominated for election as Directors together with their principal occupation, the year in which they became Directors of the Bank and the number of shares beneficially owned, directly or indirectly, or over which control or direction is exercised as of the date hereof.

Additionally, as required by the Bank Act, set out below is a summary of the record of attendance by Directors at Board, Regional and Director Committee meetings during the 12 months ended October 31, 1986. During this period, 13 Board meetings were held: Montreal (7), Toronto (5), Vancouver, B.C. (1). Committees of the Board held meetings as follows: Audit (7), Conflict of Interest (1), Loan Policy (25), Nominating (3), Personnel & Compensation (3), Public Policy (3). Regional Director Committees held meetings as follows: Atlantic (18), Quebec (12), Ontario (12), Manitoba (12), Saskatchewan (8), Alberta (10), British Columbia (12), New York (12), Latin America and Caribbean (7), London, England (11).

Name & Principal Occupation	Address	Director Since	Shares of the Bank Beneficially Owned *		No. of Meetings Attended	
			Common	Pref'd	Board	Committees
Robin W. Adam Chairman MEPC plc (Property Development & Management)	London, England	April 3, 1984	—	—	7	13
John Anderson President & Chief Executive Officer, Westcoast Transmission Company Limited (Oil & gas and pipelines)	Vancouver, B.C.	Dec. 7, 1982	1,000	—	12	14
John A. Armstrong Company Director	Toronto, Ontario	June 26, 1974	2,824	—	10	13
Ian A. Barclay Chairman Canada Harbour Place Corporation (Property development) (Member Audit Committee)	Vancouver, B.C.	April 3, 1973	6,526	—	11	19
G.H. Blumenauer Chairman of the Board Otis Canada, Inc. (Mfrs. of elevators) (Member Audit Committee)	Oakville, Ontario	Dec. 2, 1969	6,190	—	12	19
Robert W. Campbell Chairman Canadian Pacific Limited (Oil & gas, mining, forest products and transportation)	Calgary, Alberta	March 6, 1984	100	—	9	21
Robert M. Chipman Chairman The Megill-Stephenson Company Limited (Automotive/Real estate) (Held this position during past five years)	Winnipeg, Manitoba	May 5, 1986	1,135	—	5	6
Frank B. Common, Jr., Q.C. Counsel Ogilvy, Renault (Barristers & Solicitors) (Director, Royal Bank Realty Inc. — RoyLease Ltd.)	Montreal, Quebec	March 19, 1974	6,186	—	13	35
Camille A. Dagenais, C.C., LL.D. Director The SNC Group (Engineers & constructors)	Montreal, Quebec	April 11, 1978	6,846	—	9	8
Mitzi S. Dobrin Chairman & Chief Executive Officer DBRN Holdings Ltd. (Investment company)	Montreal, Quebec	Nov. 30, 1976	2,047	—	11	7

Name & Principal Occupation	Address	Director Since	Shares of the Bank Beneficially Owned *		No. of Meetings Attended	
			Common	Pref'd	Board	Committees
G. Campbell Eaton, O.C., M.C., C.D., LL.D. President Dublin Ltd. (Personal company)	St. John's, Newfoundland	Sept. 9, 1976	4,765	500 (1st "B") 250 (CWS)	9	29
John R. Evans, C.C., M.D. Chairman & Chief Executive Officer Allelix Inc. (Biotechnology)	Mississauga, Ontario	March 6, 1984	1,500	—	12	11
Jock K. Finlayson Chairman Royal Insurance Company of Canada (Insurance)	Montreal, Quebec	April 7, 1970	4,173	750 (1st "B") 375 (CSW)	11	7
L. Yves Fortier, O.C., Q.C. Senior Partner Ogilvy, Renault (Barristers & Solicitors) (Held this position during the past five years)	Montreal Quebec	June 10 1986	781	—	4	2
Rowland C. Frazee Retired Chairman The Royal Bank of Canada	Montreal, Quebec	Feb. 28, 1973	8,847	—	12	32
W.D.H. Gardiner President W.D.H.G. Financial Associates Ltd. (Consultants)	Vancouver, B.C.	Feb. 28, 1973	6,186	—	10	6
Arden R. Haynes Chairman, President and Chief Executive Officer Imperial Oil Limited (Integrated petroleum company)	Toronto Ontario	June 11, 1985	203	—	7	17
Charles H. Knight Chief Executive Officer Denro Holdings Ltd. (Land Development)	Regina, Sask.	Feb. 1, 1983	1,000	—	11	11
Walter F. Light Retired Chairman Northern Telecom Limited (Mfrs. of telephone equipment, wire & cable)	Toronto, Ontario	July 11, 1978	5,000	500 (2nd Pfd)	11	6
The Hon. E. Peter Lougheed, P.C., Q.C. Senior Partner Bennett Jones (Barristers & Solicitors) (During preceding 5 years was Premier, Province of Alberta)	Calgary, Alberta	Feb. 4, 1986	200		4	6
P.L.P. Macdonnell, C.M., Q.C. Partner Milner & Steer (Barristers & Solicitors)	Edmonton, Alberta	June 4, 1968	7,366	900 (2nd Pfd)	13	28

Name & Principal Occupation	Address	Director Since	Shares of the Bank Beneficially Owned *		No. of Meetings Attended	
			Common	Pref'd	Board	Committees
Clifford S. Malone Vice-Chairman United Corporations Limited (Investments)	Toronto, Ontario	May 20, 1975	2,500	—	13	38
Alexander B. Marshall Chairman Commercial Union Assurance Company plc (Insurance company) (Member Audit Committee)	London, England	Oct. 1, 1985	—	—	9	15
J. Pierre Maurer Vice-Chairman of the Board Metropolitan Life Insurance Company (Life insurance company)	New York, N.Y.	April 23, 1975	7,361	—	12	14
G. Wallace F. McCain President McCain Foods Limited (Frozen foods) (Held this position during the past five years)	Florenceville, N.B.	Sept. 3, 1986	22,000	2,000 (2nd Pfd)	2	—
Dawn R. McKeag President Walford Investments Ltd. (Holding company)	Winnipeg, Man.	Mar. 1, 1978	6,200	100 (CSW)	11	13
W. Earle McLaughlin Former Chairman of the Board The Royal Bank of Canada	Montreal, Quebec	Dec. 19, 1960	12,326	—	8	27
A.H. Michell Vice-Chairman The Royal Bank of Canada (Held executive positions with the Bank during the past five years)	Montreal, Quebec	June 1, 1986	6,435	—	5	6
J. William E. Mingo, Q.C. Barrister Stewart MacKeen & Covert (Barristers & Solicitors)	Halifax, N.S.	April 5, 1983	5,061	—	12	30
Pierre A. Nadeau Chairman of the Board Tioxide Canada Inc. (Chemicals) (Director, Royal Bank Realty Inc., RoyLease Ltd.)	Montreal, Quebec	Oct. 2, 1973	9,021	—	10	9
J. Edward Newall Chairman, President and Chief Executive Officer Du Pont Canada Inc. (Chemicals)	Mississauga, Ontario	Sept. 5, 1984	1,060	—	10	17

Name & Principal Occupation	Address	Director Since	Shares of the Bank Beneficially Owned *		No. of Meetings Attended	
			Common	Pref'd	Board	Committees
Ralph A. Pfeiffer, Jr. Retired Chairman IBM World Trade Corp. (Technology) (Member — Audit Committee)	Purchase, N.Y.	June 12, 1984	300	—	10	12
Neil F. Phillips, Q.C. Resident Senior Counsel Phillips & Vineberg (Barristers & Solicitors) (Member Audit Committee)	New York, N.Y.	Feb. 1, 1972	2,810	7,250 (2nd Pfd)	11	16
Herbert C. Pinder President Saskatoon Trading Company Limited (Property holding company) (Member Audit Committee)	Saskatoon, Sask.	June 5, 1970	8,658	—	12	13
Claude Pratte, Q.C. Counsel Stein, Monast, Pratte & Marseille (Barristers & Solicitors)	Quebec, Quebec	May 9, 1967	6,186	—	12	7
Charles I. Rathgeb Chairman Comstock International Ltd. (Construction & mechanical equipment)	Scarborough, Ontario	Dec. 1, 1970	20,000	—	8	12
Kenneth C. Rowe Chairman, President and Chief Executive Officer I.M.P. Group Limited (Aerospace, marine products & manufacturing)	Halifax, N.S.	Nov. 5, 1985	700	—	12	10
R.G.P. Styles Vice-Chairman The Royal Bank of Canada (Held executive positions with the Bank during the past five years)	Toronto, Ontario	June 1, 1986	5,605	—	5	5
Allan R. Taylor Chairman & Chief Executive Officer The Royal Bank of Canada (Director - Orion Royal Bank Limited; Chairman & Director - Royal Bank Realty Inc.; President & Director - Canadian Realty Corp. Ltd.)	Toronto, Ontario	June 7, 1983	3,750	—	13	41
P.N. Thomson Chairman West Indies Power Corp. Ltd. (Utility company) (Director - Royal Bank of Canada International Ltd., RoyCan International Banking Ltd., Royal Bank of Canada Bahamas Ltd.)	New Providence, Bahamas	Jan. 9, 1964	5,710	—	12	37

Name & Principal Occupation	Address	Director Since	Shares of the Bank Beneficially Owned *		No. of Meetings Attended	
			Common	Pref'd	Board	Committees
John A. Tory, Q.C. President The Thomson Corporation Limited (Publishing and holding company)	Toronto, Ontario	Mar. 10, 1971	12,493	—	12	12
W.P. Wilder Chairman of the Board The Consumers' Gas Company Ltd. (Gas utility)	Toronto, Ontario	Sept. 9, 1980	20,000	—	12	12

** Includes shares over which control or direction is exercised by the person named even in those cases when beneficial ownership of some or all of the shares is disclaimed.*

Directors during fiscal 1986 who are not standing for re-election on January 7, 1987 attended meetings as follows:

D.K. McIvor	**Board 1**	**Committee 1**
Paul Paré	**Board 5**	**Committee 4**
H.E. Wyatt	**Board 4**	**Committee 2**

Directors' and Officers' Remuneration

During the fiscal year ended October 31, 1986, the aggregate remuneration paid by the Bank and its subsidiaries to its Directors and Senior Officers was as shown in the table below. Directors are compensated as follows: (i) annual retainer of $10,000; (ii) each Board meeting attended — $750; (iii) each Board Committee meeting attended — $500 (Loan Policy Committee $250 per meeting plus annual retainer of $2,500); and (iv) Committee chairmen receive an additional annual retainer of $1,000. Directors are reimbursed for transportation and other expenses incurred for attendance at Board and Committee meetings.

		Directors' Fees	Salaries	Other (Note 1)	Total
Remuneration of Directors					
A) No. of Directors: 44					
B) Corporation incurring the expense					
The Royal Bank of Canada		$1,016,107			$ 1,016,107
RoyCan International Banking Ltd.		US 1,000			US 1,000
Royal Bank of Canada Int'l Ltd.		US 3,600			US 3,600
RBC Bahamas Ltd.		US 1,000			US 1,000
Royal Bank Realty Inc.		8,000			8,000
RoyLease Ltd.		4,000			4,000
Remuneration of Officers					
A) No. of Officers: 178					
B) Corporation incurring the expense					
The Royal Bank of Canada		59,686	18,752,207	1,300,580	20,112,473
Totals	US $	5,600			5,600
	CAN. $	1,087,793	18,752,207	1,300,580	21,140,580

Note 1 — Aggregate value of the compensation shown does not exceed the lesser of $10,000 times the number of persons in the group, or 10% of the aggregate salaries stated above. Figure consists of benefits other than salary to officers on transfer to national and international locations. There were no non-accountable expense allowances.

Compensation Plans

Long Term Performance and Investment Plan

39 senior officers are currently voluntary participants in this Plan whereunder the Bank makes loans to eligible officers in amounts determined by the Personnel and Compensation Committee of the Board of Directors, which amounts are used exclusively to purchase common shares of the Bank at then applicable market prices. These loans are subject to reduction by the amounts of performance awards made to participants after three years on targets determined at the beginning of each three year performance Plan period based on projected three year compound growth in the book value of common shares and the Bank's return on equity in the third year of the performance period. In the event of retirement, the balance, if any, of any loan outstanding at the end of the last performance period in which the retirement occurs, after application of any performance award and the proceeds from the disposition of the shares, is forgiven.

A Phantom Plan corresponding in its terms to the captioned Plan is in place for the Officer/Directors. Loans are not made and shares are not purchased but at the end of each three year performance period calculation is made as if loans had been made and the shares purchased and disposed of at the end of each performance period with the same effect as under the Plan.

Performance awards pertaining to the first of the three year performance periods referred to above will be made subsequent to December 31, 1986. The aggregate amount of such awards, including those made to Phantom Plan participants, is estimated not to exceed $900,000.

Incentive Plan

Incentive bonuses based on individual performances and the general financial performance of the Bank in relation to targets for net income, return on assets, non-interest expense and other income in each fiscal year are paid following the end of the fiscal year to executive officers and senior management employees. The aggregate of such bonuses for the last fiscal year can not yet be determined; the amount of such bonuses for the period ended October 31, 1985 received by the current reporting officers was $2,640,477.

Automobile Plan

Executive officers are eligible to participate in a leased automobile program for business and personal use. Rental, maintenance and operational costs are for account of the Bank. Costs attributable to this Plan in the last fiscal year are estimated at $1,457,786.

Staff Loan Plan

Eligible employees and officers are permitted to borrow from the Bank, within certain prescribed limits and subject to the normal credit granting criteria applied to regular customer loans, at varying staff interest rates for purchases of or improvements to residential properties, investments in shares of the Bank, purchases of durable consumer goods or for certain other personal use purposes. Deemed taxable benefits arising from all loans outstanding to executive officers in the last fiscal year pursuant to Section 80.4 of the Income Tax Act are estimated at $1,278,954.

Employee Savings Plan

In June 1985, the Bank introduced an employee savings and share ownership plan designed to provide eligible employees, including executive officers, with a convenient method of establishing a regular savings and investment program. Participants may select a contribution rate of from 1% to 6% of annual base salary with a maximum contribution of $6,000. The Bank will match employee contributions to the extent of 50%. The Bank's contributions which, on behalf of executive officers, amounted to $411,870 for the last fiscal year are invested in the Bank's common shares and are subject to a two-year vesting period. The Plan is administered by a trustee.

Termination of Employment (Retirement)

Pension and retirement allowance plans are in effect to provide certain senior executive officers on retirement with annual retirement income of up to 70% of final average salary (assuming 35 years pensionable service). Lump sum retirement allowance payments equal to 1% × years of service × final salary are also paid. The value of the foregoing compensation exceeds $60,000.

Indebtedness of Directors

Except as stated hereunder, none of the Bank's Directors, or proposed nominees for election as Directors, were indebted to the Bank or any of its subsidiaries during the year ended October 31, 1986 other than for such loans as are excluded from reporting by the Form of Proxy regulations under the Bank Act and the Ontario and Quebec Securities Acts. The undernoted are also senior officers or former senior officers of the Bank and as such received loans to assist in the acquisition of housing or Bank shares or for personal requirements and for participation in the Bank's Long Term Performance and Investment Plan.

Name & Address	Max. Indebtedness During Year Ended October 31, 1986	Balance O/S November 3, 1986	Interest Rate
Directors			
J.K. Finlayson, Montreal	27,429	26,000	3%
R.C. Frazee, Montreal	23,789	0	3%
W.D.H. Gardiner, Vancouver	7,900	0	3%
A.R. Taylor, Toronto	101,136	101,136	3%
A.H. Michell, Montreal	339,562	337,629	0, 3, 3.25%
R.G.P. Styles, Toronto	376,574	343,755	0, 3, 3.25%

Indebtedness of Officers

Loans granted under the Bank's Staff Loan Program (as described under "Compensation Plans") which are not within the definition of routine indebtedness set out in the proxy regulations under the Securities Acts (Ontario and Quebec) amounted to an aggregate of $15,962,627. Housing loans, primarily related to Bank-initiated transfers of officers to major metropolitan areas in Canada and the United States, included in the above aggregate totalled $9,804,534 and are amortized over 20 or 25 years. Portions of such loans are either interest free or are at 1% for a period not exceeding 3 years; thereafter, the entire loans bear interest at rates between 3% and 6%. Loans other than for housing total $4,771,552 and bear interest between 3% and Royal Bank Prime. There is an additional $1,386,541 in interest free loans to purchase common shares of the Bank pursuant to the provisions of the Bank's Long Term Performance and Investment Plan which is more fully described under "Compensation Plans".

Name & Address	Max. Indebtedness During Year Ended October 31, 1986	Balance O/S November 3, 1986	Name & Address	Max. Indebtedness During Year Ended October 31, 1986	Balance O/S November 3, 1986
N.C. Achen, Toronto	$ 220,544	$ 207,785	M.A. Corlett, Toronto	145,035	139,982
G.C. Aitken, Toronto	221,918	219,304	C.J. Coveyduck, Montreal	84,036	74,183
J.D. Anderson, Montreal	94,414	92,307	A. Cravero, Toronto	257,048	210,839
M.C.S. Baptista, Toronto	245,508	243,816	A.R. Creasor, Montreal	27,439	24,544
M.A. Bastian, Toronto	57,279	46,604	D. D'Allessandro, Montreal	125,160	111,753
D.M. Baxter, Calgary	112,534	106,997	W.R. Dinwoodie, Chicago, Ill.	US 204,215	US 198,322
J.P. Béland, Montreal	45,647	37,862	W.D. Dobson, Winnipeg	87,230	85,408
G.R. Bernard, Quebec City	53,504	40,602	B.W. Dorset, Calgary	131,011	127,056
R.G. Bernard, Montreal	79,086	73,865	J. Driedger, Toronto	217,036	216,821
J.G. Bisaillon, Montreal	91,788	91,788	L.G. Edmonds, Vancouver	235,590	28,610
T.W. Bleackley, Vancouver	70,927	68,868	H.E. Elsie, Toronto	US 202,262	CDN 34,176
R. Bodt, Toronto	135,000	135,000	G.E. Farrow, Toronto	139,362	135,415
J.H.E. Bolduc, Montreal	£ 225,000	CDN 84,741	J.R.J. Fauvel, Montreal	37,138	37,138
A.A. Bowbyes, Toronto	143,101	138,452	G.J. Feeney, Halifax	72,225	37,599
H.G. Buckrell, Montreal	251,475	250,835	E.D. Ferguson, Toronto	203,740	203,128
W.C. Bull, Montreal	124,137	118,928	W.R. Fithern, Montreal	41,698	35,972
J.T. Burnett, Toronto	60,198	58,245	V.T. Forster, Montreal	US 170,153	CDN 68,694
J.G.H. Camiré, Montreal	65,265	67,520	J.M. Froese, Toronto	84,007	26,555
B.D. Champion, Toronto	42,500	9,527	G.F. Gaffney, Vancouver	189,664	188,313
A.M. Channell, Coral Gables, Fla.	US 253,950	US 236,850	B.C. Galloway, Toronto	62,276	25,722
J.P. Clarke, Montreal	95,325	87,495	J.J. Gannon, Montreal	77,459	72,258
J.E. Cleghorn, Montreal	474,345	462,752	R. Gazard, Toronto	41,127	38,134
W.B. Cockburn, Toronto	133,000	131,455	G. Gill, Montreal	60,995	59,153

Name & Address	Max. Indebtedness During Year Ended October 31, 1986	Balance O/S November 3, 1986
W.J. Gorman, Toronto	115,509	110,693
W.J. Grace, Toronto	134,535	134,535
J.C. Grant, Toronto	155,517	142,418
B.M. Gray, Toronto	110,386	106,754
B.D. Gregson, Toronto	132,809	82,808
D.D.E. Grier, Toronto	126,638	122,363
E.L. Grosland, Toronto	54,228	53,496
R.F. Gulliford, Toronto	54,500	25,000
J.A.R. Guay, Montreal	89,552	55,272
R.G. Hall, Toronto	143,862	126,042
K.W. Harrison, Winnipeg	159,014	158,119
R.A.R. Haskins, Vancouver	149,899	149,752
G.R. Heckman, Toronto	111,959	108,040
R.F. Hemeon, Vancouver	47,009	46,949
J.E. Henry, Calgary	151,249	126,571
A.J. Hogan, Montreal	37,313	26,056
R.W. Hoke, New York	US 293,000	US 289,108
R.G. Hunkin, Montreal	65,312	59,596
G.J. Johnson, Toronto	US 211,829	US 18,960
	CDN 35,144	CDN 35,144
R.M. Juneau, Toronto	121,597	117,630
B.V. Kelly, Toronto	350,320	349,522
K.N. Kikano, London, England	33,387	29,358
D.N. Kitchen, Calgary	146,376	131,401
J.R. Klassen, Montreal	100,000	99,517
F.H.S. Lablans, Montreal	111,125	109,435
R.P. Lasnier, Montreal	$ 55,413	$ 22,505
J.Y. Lawrie, Singapore	27,550	24,373
J.M. Lejeune, Montreal	115,530	97,945
K.A. Littlewood, Edmonton	195,732	190,962
G.D. Loewen, Montreal	72,480	63,806
D.H. Loucks, Montreal	70,984	70,872
E.J. Lundy, Vancouver	169,593	162,281
F.G. MacDonald, Toronto	179,757	161,901
W.A.R. MacDonald, Montreal	292,515	287,093
I.A. MacKay, New York	US 144,000	US 139,500
J.K. MacKay, Montreal	36,777	32,164
W.C.C. Mackay, London, England	117,364	81,873
C.G. Mackenzie, Montreal	52,950	39,569
J.G. Macpherson, Toronto	305,902	301,767
B.C. Marshall, Montreal	188,176	146,467
R.A. Masleck, Toronto	183,763	171,594
A.A. McArthur, Houston, Texas	US 109,798	US 104,326
W.J. McCartney, Montreal	310,324	289,930
E.R. McCutcheon, New York	US 166,742	US 151,278
T.R. McDermid, Montreal	111,123	110,117
J.B. McDonald, Winnipeg	48,850	48,850
V.G. McKay, Hong Kong	56,245	56,245
J. Merriam, Montreal	39,154	13,278
J.M. Messmer, Toronto	27,174	23,258
S.A. Middaugh, Halifax	40,897	38,002
W.T. Moodie, New York	US 120,887	US 115,731
R.J. Moores, Montreal	54,214	45,919
K.J. Morrison, Toronto	127,297	123,018
E.P. Neufeld, Toronto	79,512	58,876
W.J.H. Nimmo, Toronto	154,069	149,664
P.A. Palmer, Toronto	36,826	32,954
R.C. Paterson, Toronto	116,937	116,917
W.R. Penner, Vancouver	124,067	50,000
H.A. Philpott, Regina	99,233	95,392
M.D. Pollock, Vancouver	51,926	43,205
A.L. Pottle, Halifax	78,487	72,829
J.H. Prenger, Toronto	195,379	190,354
P.J. Rafuse, Toronto	42,917	39,149
J.N.T. Rednall, Coral Gables, Fla.	US 200,244	US 192,950
	CDN 124,976	CDN 120,911
M.J. Regan, Montreal	211,044	141,093
D.L. Robertson, Toronto	55,204	54,637
R.B. Robertson, Regina	79,892	73,590
M.J. Ross, New York	US 143,420	US 139,928
P.J. Rossiter, Toronto	208,783	196,961
P.H. Rubenovitch, Montreal	75,500	75,500
B. Schroder, Montreal	145,459	144,821
D.R. Seguin, Montreal	73,808	43,377
J.C. Sinclair, Toronto	38,916	38,916
K.A. Smee, Hato Rey, Puerto Rico	172,657	149,429
R.F.M. Smith, Calgary	141,421	117,946
R.L. Spicer, Montreal	41,837	40,342
W.D. Squires, Montreal	73,796	73,397
H.C. Stewart, Montreal	195,121	82,263
E.G. Stone, Toronto	212,149	180,010
R.J. Sutherland, Toronto	190,000	190,000
J.K. Talbot, Toronto	178,476	175,512
G.G. Tallman, Calgary	195,452	108,850
A.L. Tower, Toronto	29,804	26,476
J.A.B. Townley, London, England	£ 117,800	£ 116,872
R.E. Travis, Toronto	133,492	98,836
J.B. Traynor, Toronto	115,298	108,553
P.H. Tucker, Toronto	295,560	174,524
M.L. Turcotte, Montreal	118,621	118,526
J.A.W. Van Slyck, San Francisco, CA	US 263,455	US 257,315
K.A. von dem Hagen, Toronto	123,848	119,628
J.M. Walker, New York	US 300,000	US 300,000
	CDN 37,356	CDN 37,356
B.G. Wallace, Toronto	49,600	49,600
J.C. Walz, Toronto	49,603	41,564
D.S. Wells, Montreal	75,929	73,482
K.G. Wilson, Montreal	155,947	148,546

Interest of Insiders in Material Transactions

Since the commencement of the Bank's last completed financial year, the Bank has not entered into any transaction with any present, contemplated or proposed director or with any proposed management nominee for election as a director or with any officer or any associate of or any corporation controlled by any such director or officer, nor does it propose to enter into any such transaction that has materially affected or will materially affect the Bank or any of its subsidiaries.

Legal Proceedings

The following lawsuits against the Bank may each be considered to be material:

An action was instituted in Los Angeles, California, in September 1983 originally claiming US $5.4 million general damages and US $205 million for loss of profits, amounts which were reduced to $79 million in aggregate just prior to the jury trial in late August 1985. The essential allegations are that the Bank aborted the acquisition, enlargement and redevelopment of a downtown Los Angeles commercial property by refusing to advance the

US $17 million balance of a $20 million financing commitment. Notwithstanding that the only evidence of any such commitment was the unsubstantiated testimony of one of the officers of the Plaintiff corporation made during the course of the ten day trial, the jury returned a verdict of liability on the part of the Bank and assessed the damages payable to Plaintiff at US $18.5 million. The Bank has lodged an Appeal of the judgement against it in such amount and Plaintiff has cross-appealed asking for a judgement raising the amount to that originally claimed.

In February 1985, an action against the Bank, a firm of chartered accountants and others was lodged before the Supreme Court of Ontario claiming general and punitive and exemplary damages in the aggregate amount of $780,075,000 based on allegations that the Bank's demand for payment of outstanding loans slightly in excess of $1,000,000, and the putting in of a receiver and the subsequent liquidation of assets to recover such loans, was illegal and improper and that in exercising its recovery recourses, the Bank and the receiver were guilty of trespass and conversion, deceit and gross negligence resulting in the ruination of the business and the loss of the equity therein. Discoveries have been delayed by an appeal of a preliminary motion and the exposure, if any, can therefore not yet be quantified though counsel for the Bank is satisfied that the damages claimed are grossly exaggerated.

The Bank is one of 23 banks and other lending institutions against which two actions were filed in the United States District Court in Dallas, Texas, in July 1986 by several plaintiffs including Penrod Drilling Company and the Hunt Brothers. The suits allege violations of state and federal laws, including U.S. antitrust legislation, growing out of several loan transactions. These two actions claim damages in excess of U.S. $13.8 Billion and ask for discharge of liability to the Bank and other lenders in the amount of approximately U.S. $1.4 Billion. The Bank has filed a defence to these claims vigorously denying the allegations made by the plaintiffs. Discoveries have only barely commenced and the legal and factual complexity of these two claims is such that it is not yet possible to assess the Bank's exposure, if any.

Two actions in the Court of Queen's Bench, Calgary, Alberta, were recently instituted against the Bank, its directors and certain named individuals claiming slightly in excess of $5.5 Billion as aggregate damages based on allegations of wrongdoing in pursuing the plaintiff and certain guarantors for the recovery of outstanding loans made to the plaintiff and certain companies of which he is a principal. The Bank is defending these two actions which, on the basis of current but incomplete information, would appear to be without merit.

Directors and Officers Liability Insurance

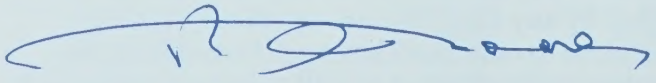
The Bank has purchased at its expense group liability insurance in the amount of $40,000,000.00 for its protection and for the protection of its Directors and Officers against liability incurred by them in their capacities as Directors and Officers of the Bank. During fiscal 1986, in respect of policy year from December 28, 1985 to December 28, 1986, the Bank paid a premium of $906,221 of which $45,311 was in respect to the Directors as a group and $45,311 in respect of the Officers as a group. In any case in which the Bank is not permitted by law to reimburse the Director or Officer, the deductible is $5,000 per person with an aggregate of $10,000 per claim. Where the Bank is permitted to reimburse the Director or Officer, the deductible is $2,500,000.

Appointment of Auditors

The Bank Act requires shareholders to appoint two firms of accountants to be the Auditors of the Bank until the next Annual Meeting. If the same two firms have been appointed for two consecutive years, one such firm shall not be appointed for a period of two years following the expiration of the term of their last appointment. The firms and/or members thereof of Deloitte Haskins & Sells, Touche Ross & Co. and Price Waterhouse have held appointments on the foregoing basis during the five financial years ended October 31, 1986. The persons named in the enclosed Form of Proxy intend to vote for the re-appointment of Touche Ross & Co. (served since 1980) and Deloitte Haskins & Sells (served in 1986) as Auditors of the Bank until the Annual Meeting of Shareholders to be held in 1988 and to fix their remuneration at a sum not to exceed $590,000 (1986 – $565,000) to be divided among them.

Directors' Approval

The Board of Directors of the Bank have approved the content and sending of this Management Proxy Circular.



R.J. Moores
Vice-President & Secretary

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